

Service Date: April 25, 2002

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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| IN THE MATTER of Montana Power Company |) | UTILITY DIVISION |
| Proposed Electricity Supply Cost Recovery |) | DOCKET NO. D2001.7.84 |
| Mechanism Pursuant HB 474 |) | ORDER NO. 6422 |

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| IN THE MATTER of the Application of |) | |
| THE MONTANA POWER COMPANY's |) | UTILITY DIVISION |
| 1) Approval of the Default Supply Portfolio, and |) | DOCKET NO. D2001.10.144 |
| 2) the Projected Electric Cost Tracking for the |) | ORDER NO. 6382c |
| 12-Month Period Beginning July 1, 2002. |) | |

ORDER ON ELECTRICITY SUPPLY COST RECOVERY MECHANISM

Background

1. On July 1, 2001 the Montana Power Company (MPC), now NorthWestern Energy (NWE), pursuant to HB 474, Ch. 577, Sec. 12 (2001 Session), § 69-8-210(4)(b), MCA, filed a Proposed Electricity Supply Cost Recovery Mechanism. NWE patterned its proposed electricity supply cost recovery mechanism after a natural gas tracker that has been used by the Commission and NWE for many years.

2. Generally, under the proposed electricity supply cost recovery mechanism, NWE would estimate the electricity supply expenses it expects to incur to serve default supply loads during an annual electricity supply cost tracking period. Default supply rates for the annual tracking period would be established using this estimate. During the tracking period, on a monthly basis, NWE would compare actual expenses, based on actual sales volumes and supply costs, to the estimated expenses. NWE would accumulate over or under collections, plus interest, in a deferred account. At the end of the tracking period, rates would be adjusted to true-up for any net over or under collection from the previous period, and projected expenses for the next tracking period.

3. On September 21, 2001, the Commission issued a Notice of Opportunity to Comment, Notice of Opportunity for Public Hearing. The Commission gave interested parties

until October 12, 2001 to submit written comments on NWE's proposed electricity cost recovery mechanism.

4. On October 12, 2001, Natural Resources Defense Council, District XI Human Resource Council and Renewable Northwest Project (collectively "NRDC") submitted joint comments. NRDC stated that it would be appropriate for the Commission to examine cost recovery in the context of the default supply portfolio docket (Docket No. D2001.10.144), instead of in a separate docket. NRDC stated that the cost recovery mechanism should be compatible with all short-term and long-term resources that NWE might acquire for the portfolio. At the time NWE had not submitted its default supply portfolio with the Commission. NRDC stated that interested parties had not had the opportunity to review the proposed default supply portfolio and determine whether all electricity supply costs that would be incurred as a result of the portfolio would be appropriately recovered by NWE's proposed cost recovery mechanism. NRDC suggested that it would be in consumers' interests if the Commission evaluated the cost recovery mechanism and the default supply portfolio in tandem.

5. No person requested a public hearing pursuant to the Commission's September 21, 2001 Notice.

6. On October 29, 2001, NWE submitted a proposed default supply portfolio. The Commission initiated Docket No. D2001.10.144 to encompass both NWE's proposed default supply portfolio and the proposed electricity supply cost recovery mechanism. By March 2002 all parties to Docket No. D2001.10.144 had had an opportunity to submit testimony on NWE's proposed default supply portfolio and electricity supply cost recovery mechanism. However, none of the testimony submitted in the Docket addressed the cost-recovery mechanism.

Commission Decision

7. The Commission approves the electricity supply cost recovery mechanism as filed by NWE. Mathematically, the operation of the cost recovery mechanism is straightforward and uncontested. The Commission was given clear legislative direction to adopt an electricity supply cost recovery mechanism. Section 69-8-210 (4)(b), MCA.

8. The Commission's approval of NWE's proposed electricity supply cost recovery mechanism does not constitute a determination that any costs associated with the Company's proposed default supply portfolio in Docket No. D2001.10.144 are prudent or eligible for recovery in rates. The Commission may initiate future proceedings to revise the cost recovery mechanism based on actual experience with the mechanism.

9. To calculate the interest on over and under collections during the tracking period NWE must use the pre-tax cost of capital as approved in Docket No. D2000.8.113.

Conclusions of Law

1. NWE was required to submit a proposed electricity supply cost recovery mechanism to the Commission by July 1, 2001. Section 69-8-210(4)(b), MCA.

2. The Commission is required to "adopt" an electricity cost recovery mechanism by March 30, 2002. Section 69-8-210(4)(b), MCA.

3. NWE is a default supplier. Section 69-8-103(8), MCA.

4. The electricity supply cost recovery mechanism approved herein is reasonable and lawful.

Order

NWE's proposed electricity supply cost recovery mechanism is approved as filed.
Docket No. D2001.7.84 is closed.

DONE AND DATED this 26th day of March, 2002, by a vote of 5-0.

DOCKET NO. D2001.7.84, ORDER NO. 6422
DOCKET NO. D2001.10.144, ORDER NO. 6382c

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BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

GARY FELAND, Chairman

JAY STOVALL, Vice Chairman

BOB ANDERSON, Commissioner

MATT BRAINARD, Commissioner

BOB ROWE, Commissioner

ATTEST:

Rhonda J. Simmons
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.